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## United States Senate

COMMITTEE ON SMALL BUSINESS  
WASHINGTON, DC 20510-6350

January 14, 1999

Dear Colleague:


A top priority for small businesses continues to be clarification of the IRS' complex and highly subjective test for determining who is and who is not an independent contractor. As the work of the 106th Congress gets under way, I am renewing my efforts to give business owners clear rules for making these determinations and protection against retroactive reclassification of workers by the IRS.

The IRS has long used an extremely complicated and subjective 20-factor test to determine worker status. In too many cases, the IRS determines that a worker must be treated as an employee at the expense of *bona fide* independent-contractor arrangements. The fear and confusion created by this bias often prevent small business owners from contracting with independent contractors, even though doing so may be the best business decision. In addition, the cost of making an honest mistake can destroy a business through payment of back taxes, interest and penalties.

As in the last Congress, my bill will establish clear rules that a business or a worker can use to determine independent-contractor status. In response to feedback from business and industry leaders, I also added greater protections to ensure that they are not used to the detriment of workers who should be treated as employees. The bill will also include provisions to ease small business owners' fear of retroactive reclassifications by the IRS. In addition, it will repeal section 1706 of the Tax Reform Act of 1986, which prevents businesses who contract with certain technical service providers, such as computer programmers, from having the same protections against reclassification as are available to businesses that engage other independent contractors.

Entrepreneurs who chose to work as independent contractors and the businesses that contract with them have waited too long for straightforward rules. I urge you to join me in supporting legislation to level this playing field. If you would like to be a co-sponsor, or if you have any questions, please call me or have your staff contact Mark Warren, Tax Counsel for the Committee on Small Business, at 4-5175.

Sincerely,



Christopher S. Bond  
Chairman